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Telecom Regulatory Authority of India
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Subject: Counter Comments on Consultation Paper on "Review of Interconnection Usage Charges"

Dear Sir,

This is further to our submissions dated 17 October 2016, please find enclosed the counter comments to some of the issues raised by other stake holders and which we feel needs an counter view.

We hope that the TRAI will find our response and counter comments useful and consider our inputs while finalising the Regulation on this subject.

Thanking you,

Yours sincerely,
For **Telenor (India) Communications Pvt. Limited**

P.K. Sharma

(Pankaj Sharma)
Chief Corporate Affairs Officer

Encl: a.a

1. **The 11th Amendment to IUC Regulation (1 of 2015).** Fixed termination charge (FTC) or Mobile termination charge (MTC) is the charge payable by originating service provider to terminating service provider. This is to cover the network usage cost and is calculated based on the type of terminating network. The costs of terminating network (Fixed / Mobile) are taken accordingly for calculation.

   FTC should essentially apply to a call if it is terminating in fixed network; however the Wireline to Wireless is terminating on mobile but is equated to Fixed for the purpose of charging.

   The current regime for termination charges, as laid out in the 11th Amendment to IUC Regulation (1 of 2015) is summarized in the table below.

Type of call	Type of traffic	Termination charge	Proposed by Telenor
(1) Local and National Long Distance Call	Wireless **to Wireless**	Re. 0.14 (paise fourteen only) per minute	**MTC**
	Wireless to Wireline	0 (Zero)	FTC
	Wireline to Wireline	0(Zero)	FTC
	Wireline **to Wireless**	**0 (Zero)**	**MTC (uniform)**
(2) International Call	International incoming call to wireless and wireline	Re 0.53 (paise fifty three only) per minute	

   Under this regime, there is in effect **two different MTCs**, one for calls originating on Wireless (14 paise) and one for calls originating on Wireline (0). The termination charge should be fixed on the type of terminating network. This creates an anomaly which has been exploited by a few internet companies in the past to route calls terminating on mobile networks through the 0 cost route.

   To correct this, we recommend and all MTC (calls terminating in mobile network) should be uniform.

   Both MTC and FTC should be cost based, and hence we do not recommend equal MTC and FTC unless the (pure LRIC) cost of the two turn out to be the same. Our response to Q5 and Q6 should be read in the light of the above.

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2. Common issues – inclusion of CAPEX, OPEX, spectrum costs etc….

Sl. No.	Some TSPs argue	Telenor counter comments
1	The *'principles of TDSAT judgment'* are quoted in great detail. These principles have been diluted as *'TDSAT's observation'* in the following paragraph.	There has been a ruling from Hon'ble Supreme Court in 2013 and thereafter TRAI issued the amendment in 2015 based on certain principles. This amendment is in vogue and all operators are following it. Hence, any reference of TDSAT 2010 may not be relevant in the present context.
2	High cost of spectrum, and inclusion	While spectrum costs are high, only a small proportion of it is related to voice, and voice termination specifically: • Overwhelming majority of spectrum (90%) bought in auctions for data. • All spectrum bought in 2016 auction is for data services • The cost of data spectrum should be excluded upfrom from the calculation of MTC • The apportioned cost of remaining spectrum used for Voice only should be used for calculation of MTC • **
3	Recovery of both CAPEX and OPEX along with common cost	• New technology radio and core equipment are energy efficient and have smaller footprint. Saving in energy bills and rental • Multiple radio equipment on same sites increase tenancy, reduced OPEX • Growth in number of BTS is exponential compared to increase in number of Towers • **
4	Under recovery of cost, MTC being 35 paisa	• We find this claim difficult to believe given the retail prices offered by the operators claiming this. • The same operators are selling local calls (25-30 paisa) and STD (25-35 paisa) per minute • Rates much lower through STV / rate cutter • This implies, estimates of MTC are heavily inflated • **

** *The detailed arguments are submitted in our response dated 17 Oct 2016*

3. ***Some TSPs argue -*** *Revenues from incoming MTC helps in investments in rural areas. In order to compensate for retaining low-calling rural customers, advocate higher MTC.*

Telenor counter comments

Telenor notes that this amounts to making the MTC partly a subsidy of higher coverage networks levied by lower coverage networks. An MTC based on this principle is clearly against the principle of work done advocated by the very same service providers who propose this subsidy.

In response we quote from our submission dated 23 Dec 2014 during the last round of consultation, wherein detailed arguments were provided on sound economic principles.

Network externalities are irrelevant and call externalities favour use of pure LRIC

In simplified economic terms, when prices are set at marginal cost, consumption is maximised. However, the need to recover common costs and the existence of a multi-party network means that other more complex economic issues need to be considered:

- Some parties may argue that mobile termination charges should be set high because of 'network externalities' (that is, subsidising more customers to join the calling network). Uninor believes this argument is very weak in India. Where subsidies do exist, they are used to entice high-value customers and to improve the take-up of smartphones for data usage. Operators typically spend very little trying to subsidise new low-income customers to join or stay on their networks. Hence there is a low probability that mobile termination charges could efficiently subsidise those marginal (non)subscribers to join and stay connected to mobile networks. Many regulators have explored the issue of network externalities requiring higher mobile termination charges, but very few have applied them. TRAI should simply reject any attempt by operators to argue that such widespread network externality surcharges are appropriate in the Indian market.

- On the other hand mobile customers do benefit from the calls they receive (even if they do not pay the wholesale mobile termination charge or retail price in the calling party pays regime). It is very hard to quantify the benefit (the call externality) of this effect. However, in applying pure LRIC as a cost standard for mobile termination charges, other regulators have essentially accepted that this is a material contribution to benefits, applied as a mobile termination charge excluding common costs.

MTCs should not be used to subsidise the additional coverage of larger operators

The pure LRIC approach is consistent with pricing at marginal cost (i.e. avoidable, incremental costs only) to maximise consumption, consistent with neglecting the requirement to subsidise network externalities through termination (i.e. no need for high mobile termination charges) and taking into account the call externality that customers get from receiving calls (i.e. meaning mobile termination charges should be lower than LRIC/LRIC+). This position can practically be understood well in India, given differences in regional coverage, as follows:

Customer A chooses which network to subscribe to based party on the coverage (and quality) that the operator offers. An operator with good coverage (quality) should have higher subscription/traffic prices, whereas an operator with poorer

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> *coverage (quality) should have lower subscription/traffic prices. In choosing which operator to subscribe to, Customer A also implicitly chooses the features of receiving voice calls, primarily the coverage area and call blocking of the network. When the customer receives calls, it has already taken into account the benefits (disadvantages) obtained from the coverage and quality while receiving calls from customer B on another network. Customer B pays (via the calling party pays system) customer A's network for the costs caused by that incoming call (i.e. long-run, pure incremental costs), but Customer B is not paying costs that Customer A accepted in choosing which network to subscribe to, based on the quality and coverage it expected to receive from the network.*

If all operators in India had the same type of subscribers, coverage, technology and network quality, then cross-charging for other operators' coverage costs in the mobile termination charges would be net offset to a large extent. However, given the differences between operators in India, then cross-charging for coverage (quality) will distort the incentives for operators to efficiently tailor their coverage and quality (and prices) to their own customers' preferences. Sub-pan India operators would also find themselves contributing to coverage in circles where they were not licensed, i.e. where they are not even in a position to offer customers a more efficient service.

This being our main justifications for adopting a pure LRIC approach:

The pure LRIC approach means that customers of networks with lower levels of coverage will not be subsidising the additional coverage costs of networks with higher levels of coverage which should, therefore, be borne by the customers of the networks that offer higher levels of coverage (especially for interconnection between circles where the interconnecting operators may not have competing retail offers).

MTCs should not be used to subsidise the additional coverage of larger operators.

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